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Challenges to and opportunities for public administration in the context of the financial and economic crisis

Challenges to and opportunities for public administration in the context of the financial and economic crisis

Note by the Secretariat

Summary

The global financial and economic crisis since late 2007 has had a significant negative impact on the income, wealth and living conditions in both developed and developing countries. The crisis has also had an impact on public administration, especially on the implementation of social and economic policies and its economic functions more generally.

The present note by the Secretariat is intended to provide members of the Committee of Experts on Public Administration with background information for their deliberations during the ninth session, on the basis of the themes that some Committee members identified for the Secretariat as being of major relevance for consideration at that session. The crisis presents not only challenges, but also some opportunities for public administration as a tool for sustainable, inclusive and equitable development. Public administration is in need of reform, transformation and the adoption of measures that will not only contribute to a recovery from the crisis in the short or medium term, but also help achieve better sustainable, inclusive and equitable development.

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I. Introduction

1. Since late 2007, the world economy has been experiencing one of its greatest crises since the Great Depression of the 1930s. Many of the major economies fell into recession; most developing countries have seen growth fall, although not as much as some economies in transition. Governments at both the national and subnational levels are facing huge financial constraints in fulfilling their functions and are under pressure to adapt to the new circumstances and to become more effective institutions for development in the future.[1]

2. The crisis has resurrected a debate about the economic role of public administration. Since the late 1970s, the debate has been strongly tilted towards the private sector and market-driven management approaches. The call to reduce State interventions in economic matters was followed in many countries, privileging the private sector as the engine of economic growth. The present note by the Secretariat focuses on how the government sector has been affected by the crisis in the majority of countries and how public administrations are responding and may evolve in the longer term as agents of development. The purpose of the note is not to provide a full analysis in this regard, but rather to offer some elements for experts from diverse countries to use as a basis for a discussion on the matter in seeking to identify a variety of public sector responses to foster development both in the short term (overcoming the crisis) and in the medium and long terms (achieving sustainable and inclusive growth in the post-crisis era).

3. The note seeks to contribute to the international dialogue on economic and social issues of central importance for development worldwide, which is ongoing in the United Nations through the Economic and Social Council. In particular, the note is provided by the Secretariat, through the Division for Public Administration and Development Management, of the Department for Economic and Social Affairs, as background material for the Committee of Experts on Public Administration, a specialized subsidiary body of the Council. It is intended to facilitate deliberations among the members of the Committee during its ninth session, to be held at United Nations Headquarters, New York, from 19 to 23 April 2010. In turn, those deliberations will contribute to the publications of the Secretariat throughout 2010-2011. In this way, the views of Committee members will also help foster analyses in other forums and institutions, including in academia.

4. Even though several early indicators show that recovery from the crisis is imminent in some advanced economies and in India and China as at the start of 2010, there is still uncertainty about the sustainability of such a recovery.[2] The Committee and the Economic and Social Council can assist Member States by

[1] For comprehensive analysis of the world economic and financial crisis and its many implications, see the report of the Commission of Experts of the President of the United Nations General Assembly on reforms of the international monetary and financial system, available at www.un.org/ga/president/63/interactive/financialcrisis/PreliminaryReport210509.pdf; *World Economic Situation and Prospects 2009* (United Nations publication, Sales No. E.09.II.C.2); the report of the Secretary-General on the world economic and financial crisis and its impact on development (A/CONF.214/4); and *World Economic Situation and Prospects: Update as of Mid-2009* and *World Economic Situation and Prospects 2010: Global Outlook*, pre-release, both available at www.un.org/esa/policy/wess/wesp.

[2] *World Economic Situation and Prospects 2010: Global Outlook*, pre-release, available at www.un.org/esa/policy/wess/wesp.

summarizing and analysing the main lessons learned from the crisis with respect to the role of public administration, not only in terms of concrete measures to strengthen and accelerate recovery in the short term, but also with regard to how countries can improve their public administration in order to best contribute to sustainable, inclusive and equitable development for all in the long term — hence the reference in the title of the note to the challenges to and opportunities for public administration.

II. The 2008-2009 global financial and economic crisis and international actions to overcome it

5. The present section provides a succinct explanation of the crisis, presents a few key statistics with which to assess it and summarizes the main international efforts to overcome the recession, mitigate its effects, act upon its causes and build better foundations for the future. Given that the present note addresses neither the causes of the crisis nor the policies required for recovery, but challenges to and opportunities for public administration in the context of the crisis, readers interested in more in-depth analyses should refer to other publications that directly address the former issues.[3]

6. Since late 2007, the world economy has been going through a deep economic recession — the worst since the 1930s in terms of the decline and the geographical spread. Indicators include the following:[2] in 2009, gross national product declined in real terms by 3.5 per cent in the developed economies, 6.5 per cent in countries with economies in transition, 2.1 per cent in Latin America and the Caribbean and 1 per cent in Western Asia; in other developing regions, while output did not contract, growth rates decreased. Initial estimates show that poverty headcount rates increased significantly in 2009 compared with 2008, by 46.7 million in the developing countries (28.5 million in East and South Asia, 13.9 million in sub-Saharan Africa, 3.3 million in Latin America and the Caribbean and 1.3 million in West Africa). Trade flows had declined at an annualized rate of 30-50 per cent by the end of 2008/early 2009, in particular in Asian economies.

7. The origins of the recession can be traced back to major problems in the financial sector in the United States of America. A large quantity of bank assets consisting of mortgage loans were converted by financial intermediaries into a variety of innovative secondary securities, which in turn were sold in the financial market, attracting large amounts of savings from investors around the world. Since the exchange of assets proved very profitable, the phenomenon continued and grew considerably, creating a financial bubble.

8. Motivated by high profits in those secondary financial operations, financial intermediaries of various types, in particular large banks, pushed the supply of loans for housing until interest rates were very low — even lower than the loan rates offered to high-quality debtors (i.e., prime rates), although loans were being granted to creditors with higher-risk qualifications. Risk analysis was widespread, but attention was concentrated mostly on the secondary instruments' risks and much less on the risks of the underlying house loans. Thus, buyers of secondary securities were not fully aware of the total risks as these financial instruments became

[3] The bibliography to the present report contains a list of publications and articles on the subject.

increasingly complex, and neither private rating companies nor public authorities provided sufficient information for the market participants. It was later recognized that official regulators had not acted promptly at the time the financial bubble was growing, assuming that the financial intermediaries themselves would have acted out of self-interest to adopt measures to prevent a crisis. At the same time, it became clear that the rating agencies had a conflict of interest, as they had a close, ongoing working relationship with the largest mortgage-backed security and collateralized debt obligations issuers. The current crisis is thus the result of regulatory failure.

9. The collapse a leading finance house, Lehman Brothers, had a system-wide domino effect, leading to a series of defaults on mortgage loans. As a result, a number of big banks began to go into severe balance-sheet disequilibrium, resulting in bankruptcy or near-bankruptcy, not only in the United States but also in other countries where banks acquired the complex United States financial assets. It was only then that government decided to intervene, contributing with public funds to strengthen the capital of major troubled banks to avoid further repercussions such as might result from generalized bank runs or a financial crash.

10. As non-institutional financial investors became aware of the losses incurred in terms of wealth, they had to rapidly increase precautionary savings to deal with the impact of the financial crisis. This meant that they had to cut expenditure on goods and services. The decline in net worth of wealth itself had a negative impact on expenditure. Demand began to fall and the recession affected an increasing number of sectors; thus, the financial crisis evolved into a broader economic crisis.

11. The economic crisis was transmitted to many developing countries around the world through a number of channels: decreases in international trade, diminishing international tourism, falling commodity prices, capital outflows to safer countries, increased interest rates, shrinking migrant remittances and constraints on international aid and official development assistance. The crisis thus assumed truly global dimensions.

12. As a result of the economic downturn, unemployment and underemployment increased very significantly in most countries, both developed and developing.[4] As a result of job losses, considerable numbers of people fell into poverty. This set back the fight against hunger and the creation of decent jobs.[5] In addition, social protection measures in developing and developed countries came under serious pressure. Most countries will have to grow vigorously during the period 2011-2015 just to recover the jobs already lost. The accomplishments made towards the attainment of the Millennium Development Goals in many countries have thus been undermined.

13. The debt levels of the heavily indebted poor countries, including those that have benefited in the past from debt relief initiatives, are increasing. Relief measures for low-income countries have therefore been given consideration in international debates. With regard to measures to facilitate finance for the recovery

[4] International Labour Organization (2009), "Recovering from the crisis: a global jobs pact", adopted by the International Labour Conference at is ninety-eighth session, 19 June 2009 (ISBN 978-92-2-120671-2).

[5] Ravallion, Martin, "The crisis and the world's poorest", *Development Outreach*, World Bank Institute, December 2009; and Vos and Sánchez (2009), "Impact of the global crisis on the achievement of the MDGs in Latin America", Department of Economic and Social Affairs working paper No. 74 (ST/ESA/2009/DWP/74).

of the global economy, the countries of the Group of 20 (G-20) have provided their views to the International Monetary Fund (IMF).[6]

14. As the crisis reached global proportions, international conferences were held at the United Nations, including at the International Labour Organization (ILO), and several summits of the G-20 were held in 2008 and 2009 (in Washington, D.C., and Pittsburgh, United States, and in London). It has been agreed that further meetings will be held in New York, the Republic of Korea and France in 2010 and 2011. Declarations have been adopted to end protectionism in international trade, defend jobs and create early warning or monitoring systems under the auspices of the United Nations in order to prevent the occurrence of similar crises in the years to come.[7]

15. A number of domestic measures have been adopted in various economies on several fronts. First, in order to prevent the further collapse of the financial sector, insurance mechanisms have been introduced for savings accounts to benefit the public and avert financial panic and runs; public funds have been injected into the capital of large banks and other intermediaries to prevent bankruptcies; and investigations have begun into flaws in financial regulations with a view to their subsequent reform. Secondly, in order to stimulate aggregate demand and prevent the further deepening of the recession, public expenditure programmes have been put into effect, including by implementing planned investments in, inter alia, school maintenance and enhancement, environmental and energy infrastructure and science and technology to increase competitiveness. Thirdly, in certain countries, support has been provided to domestic industries considered strategic because of their contributions to employment or innovation, such as the automobile industry. Fourthly, open market operations have been introduced in the money and foreign exchange markets, to prevent bubbles and maintain the stability of interest and foreign exchange rates. In some cases, the way in which such measures have been implemented has raised public concerns about transparency, and there have been calls for the equitable distribution of stimulus packages. In other cases, the substance of the policies has been debated: for example, support for strategic industries entails protectionism that may adversely affect the international trade system.

16. Early in 2010, several leading economic indicators signalled that the worst phase of the crisis may have already ended in some advanced economies and that recovery may soon start in those countries at a slow and gradual pace. However, there is still considerable uncertainty about the sustainability of the incipient

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[6] See the declaration issued at the Washington, D.C., summit on financial markets and the world economy, held on 15 November 2008; "The global plan for recovery and reform", issued at the London summit, held on 2 April 2009; and the "Leaders' statement" issued at the Pittsburgh summit, held on 24 and 25 September 2009.

[7] See International Labour Organization, "Recovering from the crisis: a global jobs pact", adopted by the International Labour Conference at its ninety-eighth session, 19 June 2009 (ISBN 978-92-2-120671-2); *World Economic Situation and Prospects 2010: Global Outlook*, pre-release, available at www.un.org/esa/policy/wess/wesp; and the following statements by the Group of 20: declaration issued at the Washington, D.C., summit on financial markets and the world economy, held on 15 November 2008; "The global plan for recovery and reform", issued at the London summit, held on 2 April 2009; and the "Leaders' statement" issued at the Pittsburgh summit, held on 24 and 25 September 2009.

recovery. The rest of the world economy, particularly developing countries, will continue to experience growth deceleration.[8]

III. Direct challenges to public administration

17. The present section describes a set of challenges posed to public administration in numerous countries as a result of the crisis, although the severity of those challenges evidently varies from country to country. Those challenges were identified on the basis of consultations with all Committee members carried out by the Secretariat, and attention is focused on the issues most frequently pointed out by them. Each challenge is briefly sketched and concrete-related questions are included for possible discussion by the members of the Committee at its ninth session. Although in practice many of the challenges are interrelated and a systemic approach is thus necessary if they are to be addressed in a comprehensive fashion, for purposes of clarity and simplicity, each particular challenge is presented separately.

18. During their deliberations, Committee members may well expand this limited set of issues by adding others that may have gained relevance, and they may also enrich the discussion by further addressing the interrelationships among the particular challenges summarized in the present section. Similarly, they may contribute to the international dialogue by providing concrete examples of how particular countries familiar to them have acted or are planning to face the challenges.

Leadership

19. The crisis is clearly a result of regulatory failure. Governments need to take steps to strengthen the prudential regulation of the financial sector, including with regard to both banks and non-bank financial institutions. This will put a huge demand on capacity in terms of human resources and information needs.

20. Putting a stop to the crisis and setting up conditions for recovery will receive actions from Government authorities. Heads of Government and ministers will need to convey to the public:

(a) Exact diagnoses of the crisis in their countries;

(b) Complete explanations about the mix of public policies and interventions that will be applied and the expected outcomes;

(c) Timely and trustworthy information on the deployment of policies and the evolution of key socio-economic and financial indicators presented in a way that promotes better-informed and more realistic expectations concerning the timespan and magnitude of the effects of the crisis;

(d) Recommendations about types of actions that the private sector, organized civil society and households can undertake in order to cope with the crisis period, and explanations about how public policies are contributing to reducing the negative impact on them and on the most disadvantaged groups in society.

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[8] *World Economic Situation and Prospects: Update as of Mid-2009*, available at www.un.org/esa/policy/wess/wesp.

21. In taking such actions, heads of Government and ministers will face the challenge of effectively convincing the largest number of stakeholders that the crisis is being properly addressed and that the Government has it under control. This is fundamental if trust is to be maintained and support gained for public policies. The challenge is even greater when policies are seen as costly and unfair, even though they may be indispensable for recovery and the resumption of sustainable growth. Success (or failure) in this respect by public officials may help maintain or increase (or lessen) public performance approval rates among voters and the population at large. This fact, in turn, may influence public policy decision-making and, concomitantly, have an impact on the maintenance over time, and on the inherent effectiveness, of such policies.

22. Government leaders may also promote, through the dissemination of adequate information about policies adopted, the idea that the crisis may be not as deep and lasting as feared, with a view to reducing the economic and social costs of the recession. To this end, leaders are called on to provide information so as to encourage firms and households to behave rationally and not take unnecessarily drastic actions in terms of reducing expenditure, laying off workers, speculating on foreign exchange, and so forth that would, in turn, deepen and prolong the crisis.

23. Moreover, it is inevitable that individual households, firms and communities in different geographical areas will be affected, not in a uniform manner, but in various ways and to different degrees. In short, although most stakeholders will lose as a result of the crisis, some will lose relatively more than others. Political balances will therefore be affected and diverse actors will tend to mobilize in different ways to influence public policy responses in the direction that best serves their particular individual or group interests. Public policy in general tends to be more open to question under these conditions, and Government leaders face the delicate and imperative task of selecting, negotiating and applying policies that seem to be more than adequate.

24. It is difficult for public sector leaders in these circumstances to serve the general public good with a long-term vision. Partisan, class or group interests or ideological visions may dominate public policymaking and delivery. The stakes range from radical positions advocating a total change in the economic strategy or development model of the country and a move towards different — albeit not well-determined — alternative policies (for instance, major, simultaneous changes in trade policy, public sector roles, social policy, etc.), to intermediate positions seeking better government interventions (enhanced regulation, early alert systems, more transparency, etc.) and essentially passive positions that anticipate a rapid recovery as a result of external factors (a new economic order, enhanced international development aid, recovery of economic demand from growth to come in the more advanced economies, etc.).

25. In this respect, Committee members may wish to discuss:

- The type of public and private sector leadership that is most appropriate in these conditions
- How the role of public administration can be redefined so as to enable the public sector to foresee and prevent crises
- How such leadership capacity can be enhanced under the circumstances of the crisis

- How public administration institutions can help individuals in leadership positions to best exert their roles in this context

Enhanced public governance for speedy and coordinated policy responses

26. In order to overcome the crisis, a combination of public policies is called for in all countries, with variations depending on national features and circumstances. Typically, a public policy package to deal with the crisis would consist of:

(a) Fiscal measures, such as stimulus packages — increasing public expenditure or lowering taxes — aimed at firms and households with a view to mitigating the impact of immediate low demand for goods and services and reducing macroeconomic contraction;

(b) Monetary and exchange-rate policies aimed at lowering domestic, as well as international, interest rates, while striving to attain a currency exchange rate that makes the prices of internationally tradable goods in the country more competitive;

(c) Social protection measures and safety nets to address the vulnerability of the population, in particular the poor. These could include measures to help those who become unemployed (such as unemployment insurance, information on job offerings and support for retraining); public programmes to provide essential goods and services for vulnerable people; and schemes to encourage students to stay in school and to prevent the deterioration of maternal and child health.

27. To prevent crises in their own countries and to protect their economies from crises elsewhere, Governments need to strengthen regulatory measures for the financial sector, banks and non-banks, as well as for capital flows.

28. Because of the complexity of the crisis and the variety of public policies needed to address it, policy coherence will be very important. Stimulus packages and regulatory measures for the financial sector emerge from the communities associated with ministries of finance. Policies for maintaining employment and enhancing working conditions along lines of decent work, together with policies for poverty alleviation and social protection, come from authorities and communities in the labour and social development fields. Support for strategic industries and to small and medium-sized enterprises results from policymaking in the ministries of the economy and trade, and so on. Those different sectors of public administration tend to have different agendas and policy approaches. Thus, policy coherence must be secured by public leaders through effective communication, oversight and consensus-building among a large variety of public, private and social stakeholders.

29. Moreover, if those diverse public policies and particular interventions are to be more effective and efficient, horizontal coordination among ministries and other public sector entities will be necessary. For instance, if programmes are delivered to the population separately by each sector of the administration, it will be less easy for people to obtain the full intended benefit than if more integrated approaches were taken. In addition, vertical coordination will be necessary in many cases, depending on the degree of decentralization in the country. Indeed, national Governments usually have better access to means of public finance, while local governments normally have better information about which particular allocation of public funds would have the most beneficial impact on the local economy and population. Thus, collaboration across levels of government can combine the best

from each to serve the public. Such an approach, however, presents a number of challenges, as set out below:

(a) Accountability may be jeopardized, as the efficacy of the aggregate allocation of public resources is largely affected by the efficiency and degree of honesty with which very large numbers of local governments utilize public resources. Institutional supervisory capacities may be insufficient under extraordinary circumstances, such as those posed by the crisis and the recovery policy packages;

(b) The alignment of priorities and effective rules may be affected, given that coordination is not a mechanical activity but is influenced by numerous factors, including information-sharing, communication and well-established priorities. However, competing political agendas and partisan boundaries sometimes impede effective vertical coordination and collaboration;

(c) As public administration at both the national and local levels may lack the capacity to not only deal with a large number of issues but also allocate and spend extraordinary amounts of public resources, delays of an administrative nature may occur, reducing the effectiveness of aggregate public sector demand in stimulating recovery.

30. Effective governance capacity within the overall public sector in each country is therefore crucial if its own policy mix is to be adequately delivered and the crisis is to be overcome with as minimal an impact and in as short a period as possible.

31. Moreover, international policy coordination is very much required for both regulatory purposes and to ensure the effectiveness of recovery packages. Enhanced global public governance and international policy coordination are thus called for, and Governments in all countries face the challenge of participating in the design of new international rules and institutions. International dialogue within the United Nations (for instance in the context of the meeting of the General Assembly to address the crisis[9]) and the summits of the G-20 held in 2008 and 2009, as well as those scheduled for 2010 and 2011, are of crucial importance for coordinated international policymaking and delivery.

32. In this respect, Committee members may wish to discuss questions such as the following:

- What types of public policies are most appropriate in facing the challenges brought about by the crisis?
- Which adjustments in public sector income and expenditure should be considered, not only for the immediate term, but to better promote development in the medium and long terms?
- What are the constraints on public administration in designing and implementing the required policy measures, and how should they be addressed?

[9] See the report of the Commission of Experts of the President of the United Nations General Assembly on reforms of the international monetary and financial system, available at www.un.org/ga/president/63/interactive/financialcrisis/PreliminaryReport210509.pdf and *World Economic Situation and Prospects 2010: Global Outlook, pre-release*, available at www.un.org/esa/policy/wess/wesp.

- Given the capacity constraints, how can public administration prioritize the tasks?

Transparency

33. It is imperative to provide information to the public on the precise ways in which the mix of policies to overcome the crisis should be delivered and on how public budgets to stimulate recovery should be allocated, not only for reasons of credibility, but also to maintain public support for the policy package and to preserve the reputation of public authorities.

34. In particular, as the crisis has led to significant decreases in income levels for the majority, there is widespread concern in most countries regarding the fair and efficient use of public funds through stimulus packages or other comparable measures (i.e., public interventions to rescue troubled financial intermediaries or strategic industries facing major financial imbalances). Fairness is demanded by the public: the benefits must accrue not solely or mostly to firms, individuals or groups with a special connection to government, but to all, and, in particular, to the most needy. A lack of transparency in that respect might (a) undermine trust and political support for individual public authorities and Government and State institutions in general, thus endangering the efficacy of public interventions and risking political instability; (b) provoke significant redistributions of wealth in ways that not only are unfair and, in some cases, possibly illegal, but also favour rent-seeking behaviour, act against fair competition and provide the wrong incentives for efficiency, innovation and competitiveness in general; and (c) prolong outdated practices and political institutions, including co-optation, corruption and the capture of public policies by specific industries or groups, delaying the modernization of State institutions and impeding overall economic, social and political development over the longer term.

35. In this regard, members of Committee may consider discussing questions such as the following:

- What is the best way to reform public sector charters and codes of conduct in both developed and developing countries?
- How can e-government be effectively adopted to improve governmental performance and increase the efficiency, effectiveness, transparency and accountability of public administration?
- How can information and communications technology tools be utilized by Governments to increase the transparency and efficiency of government spending, in particular with reference to stimulus packages in the context of the present crisis, at the central and local levels?

Public service delivery

36. As the crisis has reduced the revenues and operational budgets of public utilities and entities, all countries are preoccupied with the supply of public services. It is necessary not only to prevent a decrease in the supply of such services, but also to ensure that its growth keeps pace with demographic and economic trends. There is also a concern that, in some cases, public services may become less affordable, particularly for the disadvantaged population, if respective prices or tariffs are increased to generate additional public revenues. Delinquencies

by consumers of public services could also become more frequent as income falls as a result of the recession and because prices and tariffs may be increased.

37. All of these factors threaten to cause setbacks in the achievement of the Millennium Development Goals, in particular with regard to effective access to training services, support for entrepreneurs and small or medium-sized enterprises, education and health services and public services aimed at sustainable development.

38. It is therefore of the utmost importance that adequate strategies to meet these challenges be adopted. Such strategies could include, inter alia, increases in efficiency and cost reductions in the public sector; the enhanced targeting of subsidies for the poor involving the adoption of adequate programmes that, notwithstanding unavoidable difficulties, would serve to focus the supply of certain public services on the most needy; and ways in which citizens can be engaged to make their access to services more efficient.

39. E-government approaches could be of enormous benefit for the implementation of such strategies. In particular, the Internet and mobile technologies can support public service delivery, especially in remote or sparsely populated areas, in both developed and developing countries.[10] To this end, the supply of information and communications technology infrastructure, connectivity and online services must be fostered, requiring enhanced regulation to attract private investment and promote effective public-private partnerships. Demand, too, needs to be encouraged, by information and communications technology service cost and tariff reductions through increased competition and enhanced regulation. However, if such potential is to be of benefit, it will be necessary to develop content, increase the skills of public sector officials and raise the e-literacy of the population.

40. In that connection Committee members may find it appropriate to deliberate on the following questions:

- How can public administration secure the provision and expansion of public services under the conditions presented by the crisis, and how can citizens be engaged to that end?
- How can multilevel governance and decentralization contribute to better public service delivery at the local level?
- How realistic is it in the current climate to increase the delivery of public services through information and communications technology in countries with diverse development levels? What are the key interventions for progress in that respect?

Social and financial protection for vulnerable groups

41. Not all groups in society are equally affected by the crisis. In addition to the varying impact of the crisis in terms of income, there are significant disparities in most countries with regard to vulnerability, with different groups being exposed to different risks. For example, the risk of unemployment differs for different groups of workers (in terms of gender, skills, education levels, age, nationality, ethnicity, etc.); the risks of falling into poverty and malnutrition, dropping out of school or

[10] United Nations, *E-Government Survey 2010: Leveraging e-Government at a Time of Financial and Economic Crisis* (to be issued).

losing access to health-care services differ for children from different types of households (mono-parental, extended, etc.); and the risk of suffering as a result of the shutdown of certain public services varies for inhabitants of urban or rural localities, and so forth.

42. Thus, the fundamental, real deprivation of diverse goods and services in which large disadvantaged groups live in many countries is compounded by greater uncertainty about future living conditions and development possibilities. Therefore, in order to preserve equity, public administrations will have to be innovative in devising schemes for social protection, including universal social protection. Some will opt for a piecemeal approach to provide protection against unemployment, ill health, natural disasters and other risks, with separate instruments and financing mechanisms being put in place, often targeting different groups. However, there is growing awareness among policymakers about the advantages of system-wide reforms which can secure universal, coherent and integral social protection. Opting for enhanced tax systems, as opposed to clientele-based fee arrangements, also offers promising prospects for the efficient financing of integrated and equitable systems. In addition, public administrations may find it convenient to further adopt information and communications technology applications and engage citizens in the design and implementation of such protection mechanisms so as to expand the scope of viable and efficient solutions.

43. In this regard, members of the Committee may wish to discuss the following questions:

- What is required for the implementation of citizen-centred policies and innovative approaches for social protection?
- How can social protection systems be enhanced to protect the nutritional, health and educational standards of low-income groups?
- How is social protection affected by insufficient public sector governance, and how can intergovernmental coordination contribute?
- Would focalization or universal approaches be better for countries looking to advance social protection? What considerations should be made in this respect regarding not only equity and efficiency in terms of policy, but also the efficacy of public administration in terms of delivering social protection?

Regulation of the financial sector

44. We must not overlook the fact that, at the very root of the present crisis were serious deficiencies in regulation and in the regulatory institutions of certain types of financial intermediaries, in particular in some advanced market economies. While it would be possible to overcome the present crisis even without changes in this respect, it is necessary, as well as a moral and political imperative, that Governments enhance those regulations and institutions in order to avoid similar crises in future.

45. As financial markets and institutions are elements central to globalization, international cooperation is very much needed to that end. The international dialogue fostered by the United Nations and the G-20 is of great importance in enlightening countries as to how to improve financial regulation and to generate enhanced mandates for financial regulators and international financial institutions.

46. In many countries, enhancing regulatory institutions may imply additional challenges in connection with capacity-building, specifically to upgrade the qualifications of public officials and institutions in charge of financial regulations and international negotiations.

47. Members of the Committee may wish to discuss, in this regard, the following questions:

- What are the capacity-building challenges in developing countries to the introduction of stricter financial sector regulations, and how can international cooperation help in this regard?
- What lessons have been learned from the regulatory failure that provoked the crisis?
- How can the risk of future crises be prevented through enhanced monitoring and an early warning system?
- How can the public interest be better served through reforming regulation, and how can regulatory capture be avoided? Which forms of citizens' participation and transparency measures need to be considered in this respect?

IV. Opportunities for public administration in the wake of the crisis

48. When given adequate attention, a crisis can be a powerful and effective incentive for positive change. Public administration should turn every challenge posed by the crisis into an opportunity for welfare-enhancing reform. The present section addresses some of those opportunities and issues.

Opportunity to build better and more effective public administration

49. Current political conditions may be more favourable for the carrying out of reforms to public administration that typically face opposition from advocates of pure private-sector management approaches. The current crisis provides an opportunity for public administration to reassess and reassert itself as the guarantor of law and order in all sectors (including the economic and financial sectors), stability, peace and security and a decent standard of living for the majority of people through adequate social protection and equitable public service delivery.

Opportunity to enhance attractiveness of public service and effectiveness of public administration

50. Will the economic crisis highlight the importance of public administration and make it attractive as a profession? Will the best talent be attracted to work in the public service? This is an opportunity for university faculties, management development institutes and public sector human resources agencies, such as ministries responsible for public administration and public service commissions, to review recruitment processes and to highlight the usefulness of public service to the people. If public administration is to become a more effective agent for development, the best people must be attracted to public service.

Opportunity to focus on current and, in particular, future needs

51. Emphasis must now be placed on building the capacity of public administration to foresee and prevent, or at least to manage, economic, financial and other crises. Emphasis must also be placed on preparing public servants who are capable of managing tomorrow today. In addition, public administration capacities must be strengthened through enhanced data-gathering and statistical systems, in many cases linked to monitoring systems. The capacity of public servants must also be enhanced so that they can adequately assess early warnings about possible crises, make a decision and act upon them in a timely manner. The needs that must be addressed by public administration must be assessed not only in terms of today, but also, and in particular, in terms of many years hence with a view to preparing for any crisis.

Opportunity for creating new public administration institutions and new ways of working

52. One impact that the crisis is having on public administration relates to the creation of new institutions. The United States, for example, created the Recovery Accountability and Transparency Board.[11] The new institution did not directly embark on its work using traditional, bureaucratic public administration means. Rather, it built a broader, problem-solving community on the basis of the concept that "none of us is as smart as all of us", and it engaged in a week-long online recovery dialogue on information and communications technology solutions to allow government to hear from a much larger and more diverse group of vendors, customers and thought leaders in the information and communications technology community.[12] The present federal Administration in the United States is proceeding on the basis of the view, as expressed by President Barack Obama in his speech accepting his nomination by the Democratic Party as its presidential candidate, that twenty-first-century challenges cannot be met with a twentieth-century bureaucracy.

53. Committee members may be interested to address the following questions:

- Given that public administration needs to be modernized continuously, how can the context of the present crisis serve to accelerate change?
- In which areas are innovations in public administration most needed?
- What are the most attractive opportunities presented by the crisis to this end?

Enhanced procurement systems

54. In order to reduce public sector investment and operational costs, thereby freeing public resources for other uses entailing larger social and economic benefits for the population, Governments often need to acquire inputs at more competitive and lower prices, outsource partially or totally the production of specific public services or engage in some sort of public-private partnerships for infrastructure and

[11] Initiated by President Barack Obama upon assuming office, on the basis of the American Recovery and Reinvestment Act of 2009. The Board comprises a Chairman and 10 Inspectors General and is charged with overseeing all funds disbursed under the Act with a view to ensuring that the funds are used in a manner consistent with the goals of economic recovery and job creation, while providing the public with a transparent view of how that process is unfolding.

[12] See www.napawash.org/recoverydialogue/overview.pdf.

public service provision. However, in some cases, corruption among officials within public administration, or regulatory capture by industries or firms that benefit from outdated procurement or public contracting rules create obstacles to reform.

55. While large parts of the population are usually not much concerned about such matters, the strict limitations in public budgets resulting from the crisis do present more favourable conditions for Governments to engage citizens in support of regulatory reforms in the area of public sector procurement.

56. Committee members may wish to discuss questions such as the following:

- How have Governments in different countries proceeded to modernize their public sector procurement regulations?
- What are the best practices in the area of citizen involvement with reference to monitoring public sector procurement?
- How can information and communications technology tools be utilized by Governments to increase the transparency and efficiency of government procurement?

More efficient public administration systems, in particular fiscal management regimes

57. It is also the case that countries sometimes face constraints in exchanging existing internal structures and procedures for new, more efficient ones. For instance, opposition from certain sectors of the bureaucracy resists supporting training for the acquisition of new skills to allow for the more effective use of management technologies, fearing that cuts in public employment will result from such administrative modernization.

58. Under the conditions created by the crisis, Governments can gain support from wider groups of the population to go ahead in modernizing specific areas of public administration so as to:

(a) Reduce the supply costs of public services and make them more affordable for citizens;

(b) Restructure inefficient State-owned enterprises and introduce new technologies so as to increase the productivity of the public sector and favour green growth;

(c) Enhance public sector governance, in particular with a view to attaining a more integrated and coordinated public sector.

59. Concrete measures to that end are varied. Some actions, however, seem to offer considerable opportunities for a large number of countries. In this respect, one outstanding possibility is that of enhancing e-government systems. The introduction of information and communications technology can allow for the more direct involvement of citizens in enhancing policy design, monitoring and implementation, including through social media tools. This can be of benefit to very large groups of the population and the private sector in the following ways:

(a) By speeding up administrative procedures so as to decrease waiting times for individuals or firms in obtaining certain public sector services, thus reducing real and opportunity costs for them;

(b) By expanding coverage of certain government or public sector services, facilitating access to citizens in relatively remote or sparsely populated areas and making such services more affordable by reducing users' transportation costs and other related costs;

(c) By increasing the quality of public sector performance through, inter alia, reducing some types of human error, facilitating storage and retrieval of information and increasing transparency so as to reduce corruption.

60. The e-government survey conducted periodically by the Secretariat shows that e-government tools have been used in an unprecedented manner as a means of supporting policies to alleviate and cope with the crisis: providing transparent crisis-response measures, conveying relevant information and support to citizens and businesses and encouraging feedback from citizens on alternatives for addressing the economic downturn. Overall, e-government is designed for speed and for managing complexity, qualities that make it well suited to financial monitoring and regulation. Moreover, there is growing evidence that the provision of transparency, and the use of e-government tools to support it, constitute a policy whose initial required investments are quickly and largely offset by increased savings and enhanced public trust.[10]

61. In this regard, members of the Committee could consider discussing the following questions:

- What support can be provided by the Secretariat to enhance e-government readiness, in particular in the developing countries?
- How can independent oversight bodies enhance the efficiency of public management?
- How can Governments better monitor financial global transactions in order to prevent future crisis?

Redirecting public expenditure and investment towards long-term development priorities

62. As a result of the current crisis, most countries have increased public expenditure and investments to strengthen aggregate demand, limit the depth of the recession and ensure a faster recovery. Some economic analysts refer to this approach as the return of Keynesian or demand-side macroeconomic policies, in contrast to supply-side economic policies. However, the use of such terminology gives the false impression that there exists a fundamental dichotomy between those two approaches, while, in fact, they can be compatible, as demonstrated by the experience and practice of fiscal policies in several countries.

63. Indeed, several countries have selected, as part of the economic stimulus packages, public investment programmes to increase human, physical or environmental capital. While injecting additional income into their economies in the short and medium terms, they are simultaneously building better foundations for more competitive, sustainable inclusive and equitable growth in the long term. Investment programmes of this sort are aimed at, inter alia:

(a) Building more or better infrastructure for energy generation in ways that result in lower carbon emissions and contribute to mitigating global climate change and achieving more sustainable development;

(b) Constructing infrastructure to serve the marginalized or poor in rural or urban areas in sectors such as water and sanitation and housing, reducing the deprivation of such groups and alleviating to some extent their poor living conditions;

(c) Expanding education and health services, as well as employment training, thus assisting poor and vulnerable groups with their current needs, while at the same time increasing their human capital and creating conditions more favourable for inclusive and equitable development;

(d) Providing funding for technological research and development, or for technical and administrative modernization, particularly of small and medium-sized enterprises, enhancing their competitiveness and thus strengthening that large portion of the productive base of the economy, which generates the largest proportion of jobs, including a large proportion of female employment.

64. It should be noted that such smart spending by public administrations not only helps economic recovery and reduces the social costs of the crisis, but also contributes at the global level to the achievement of key internationally agreed development goals, including the Millennium Development Goals.

65. The context created by the crisis may offer new opportunities for advancing towards an improved architecture for the international development finance system and for enhancing partnerships in accordance with the Monterrey Consensus. It may also be possible in these circumstances to accelerate the modernization of international aid institutions, within both donor and recipient countries, to cope with the complementary demands of reaching the internationally agreed aid targets and increasing equity in aid allocations, on the one hand, and increasing transparency, accountability and productivity in the area of aid-funded programmes, on the other.

66. In that connection, members of the Committee may wish to deliberate on the following questions:

- What are good examples of stimulus packages that can help in advancing towards the achievement of the Millennium Development Goals and other internationally agreed development goals?
- How can gender analysis enhance government spending?
- How can public expenditure be maintained after the stimulus packages have been phased out with a view to moving more quickly towards sustainable, inclusive and equitable growth?
- Why were such expenditures not prioritized to a comparable extent in the past, before stimulus packages were required?

Restructuring or rescheduling of public debt and priority of maintaining employment levels, particularly in poor countries

67. Debt service is a heavy burden for numerous countries. Payments of principal and interest can absorb considerable proportions of public-sector revenue and expenditure, thus limiting to a remarkable degree the public expenditure that is needed as part of the stimulus packages. Several proposals have therefore been made in international forums aimed at establishing a temporary debt moratorium for the least developed countries. Concomitantly, a global pact to maintain employment

and increase decent work has been made within the International Labour Organization.[4] Such endeavours complement other international efforts, specially by the G-20, to resist national pressures to adopt protectionist international trade regimes (seen in some countries as convenient for preserving national employment rates), which would further damage international trade flows, with the counterproductive consequence that global demand would fall even more, harming employment worldwide.

68. In this regard, Committee members may wish to discuss the following questions:

- Have the international efforts been effective enough?
- What is needed in order to ensure that Governments of various countries can exercise stronger leadership domestically so as to defend employment levels and favour decent work?
- What are the respective weights that debt rescheduling and public sector reform should be given on the agendas of various countries aimed at economic recovery and long-term growth?

V. Final considerations

69. Even though there are several indicators which signal, albeit with considerable uncertainty, that the worst phase of the crisis may be close to an end in some of the advanced economies and that recovery will resume gradually, it must be noted that such trends are incipient and limited to a small number of countries. Developing countries will continue to experience the effects of the crisis for a longer period. This is expected for several reasons, including the magnitude of the economic decline registered in the world economy, the gradual phasing-out of stimulus packages in the larger economies and a slow recovery in the major economies (because of idle productive capacity and still-weak expectations).[13] Therefore, it is pertinent for public administrations in all countries to further explore ways to achieve adaptation and transformation, seeking to become more effective factors for recovery and for long-term development.

70. The rapid spread of the crisis has demonstrated that the interconnection of national economies around the world has reached a very high level, strengthening the trend towards globalization. The international dialogue must therefore continue, aimed at better policy coordination to facilitate the recovery, enhanced systems for the early detection of possible future crises and assistance to countries, mostly in the developing world, to improve public financial regulation, at the same time as international financial institutions carry out much-needed reforms.

71. In this context, the Committee can continue to provide the Economic and Social Council and the global policy dialogue with relevant inputs in the years to come on matters similar to those presented in the present note.

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[13] Stiglitz, Joseph (2009), "The current economic crisis and lessons for economic theory", *Eastern Economic Journal*, No. 35, and "The imperative of improved global economic coordination", *Development Outreach*, World Bank Institute, December 2009; *World Economic Situation and Prospects: Update as of Mid-2009*, available at www.un.org/esa/policy/wess/wesp; and Lin, Justin Yifu, "Policy responses to the global economic crisis", *Development Outreach*, World Bank Institute, December 2009.

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